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TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [EAID](#) [SU](#)  
SUBJECT: FIRST SUDATEL, NOW SUDAN AIRWAYS - PRIVATIZATION  
FOLLOWS U.S. SANCTIONS

REF: KHARTOUM 902

Classified By: CDA ALBERTO FERNANDEZ, REASON: SECTION 1.4 (B) AND (D)

¶1. (U) SUMMARY: On June 11, the Sudanese State Minister of Cabinet Affairs and Chairman of the Board of Directors of Sudan Airways, Kamal Abdel Latif, announced that Sudan Airways will be privatized. The following day the government of Sudan (GoS) signed the deal with Aref Investment Group of Kuwait and the Faiha Holding Company of Sudan in a public ceremony at the Sudan Airways headquarters in Khartoum. According to the press release from this event, the GoS will own 30% of the company, while the Sudanese Faiha Holding Company and the Arif Kuwaiti group will hold 21% and 49% respectively. Interviews with an industry insider suggested that Kuwaiti ownership may actually be 70%. This latest privatization may represent a trend toward the liquidation of GoS assets following tightened U.S. sanctions. END SUMMARY.

¶2. (U) Latif noted that Sudan Airways will remain the national airlines of Sudan and that there will not be any layoffs associated with the change. According to the press release, Aref Investment Group and Faiha Holding Company will pay 250 million dollars to the government of Sudan, with Aref reporting to have already paid 56 million. Other reports from the Sudan Tribune and industry insiders value the deal between 100 to 175 million USD.

¶3. (U) In attendance at the June 12 signing were: Kol Manyang Jok, the Minister of Transportation; Dr. Ahmed Majzoub, State Minister for Finance & National Economy; Major General Nasradin Muhammad Ahmed, the General Director of Sudan Airways; Dr. Ali al Jumi', the president of the Arif Investment Group; the head of Faiha holding company; and the Kuwaiti Ambassador to Sudan.

¶4. (U) In his announcement, Latif stated that Sudan Airways eventually plans to become a publicly traded company. Latif and the new owners of Sudan Airways plan for this share issue privatization to be completed within five years. Latif expects the company's assets and access to routes to be valued at one billion dollars within the next five years. Latif also stated that the value of the company has grown from 45 million dollars in 2004 to more than 115 million dollars today.

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TIED TO U.S. SANCTIONS?  
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¶5. (U) As Nasradin, the General Director of Sudan Airways, stated at the signing ceremony, this reported growth in the company occurred while under comprehensive U.S. sanctions. Nasradin commented that Sudan Airways has succeeded despite these "exceptional circumstances." Neither Nasradin nor Latif appears to have reported on whether U.S. sanctions prompted the GoS to privatize Sudan Airways.

¶6. (C) On June 14, a former maintenance engineer of Sudan Airways, Taj Al-Seer al Najoomi, speculated in an interview

with PolOff that the tightened U.S. sanctions did not instigate the privatization of Sudan Airways. Al Najoomi reported that even three years ago, the government explored this privatization and that the deal took longer than expected to come together. Al Najoomi stated that he was laid off three years ago to make room for positions rewarded to Sudanese security and intelligence officials. He added that the company has deteriorated in recent years, due primarily to corruption and nepotism.

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KUWAITI OWNERSHIP AND GOVERNMENT KICKBACKS?  
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¶7. (C) Al Najoomi also claimed that the Kuwaiti Aref Investment group actually owns 70% of Sudan Airways. Al Najoomi stated that he learned from a contact involved in the deal that Aref is circumventing the Sudanese law that no single company can have more than a fifty percent stake in Sudan Airways. According to this contact, the Sudanese Faiha company is a facade for the Kuwaiti firm Aref, and that the combined ownership between Faiha and Aref equals 70%. Al Najoomi also stated that it has been rumored that individuals close to the government received commissions and kickbacks from the deal. (Note: Other reports add credence to al Najoomi's claims. Member of Parliament, Farouk Abu Aesa of the National Democratic Alliance, criticized this decision and called for further transparency of this deal on June 13th. End note.) Considering the limited number of airplanes and their state of disrepair, al Najoomi also speculated that Aref invested primarily to access Sudan's air routes, not to gain the assets of Sudan Airways.

¶8. (C) COMMENT: The reported success of Sudan Airways stands in contrast to its earlier blame of U.S. sanctions for its safety record. In 2003, then Sudanese Foreign Minister Mustafa Osman Ismail blamed the U.S. sanctions for a July

2003 crash of a Boeing aircraft near Port Sudan which killed over one hundred people, by allegedly blocking the shipment of parts necessary for repair of the aircraft.

¶9. (C) Comment continued. Since the May 29 announcement of tightened U.S. sanctions, Sudan has sold off its shares in its state owned telecommunications company, Sudatel, and amended its foreign currency transaction law. This latest privatization may represent a trend toward GoS liquidation of its assets before it suffers the impact of tightened sanctions and enforcement. Conversely, there are indications that the government considered this privatization prior to the tightened sanctions. In 2005, then State Minister for Investment, Abdalla Hassan Eisa reported that the government of Sudan considered privatizing Sudan Airways, giving roughly the same breakdown of ownership as was reported this week. Although there is no proof that tightened U.S. sanctions prompted this deal, further privatization of government companies may be on the horizon.

¶10. (C) Comment continued. Regardless of its relationship to tightened U.S. sanctions, the privatization of Sudan Airways represents another example of foreign direct investment from the Arabian Gulf. With the Kuwaiti Ambassador's presence at the signing ceremony, this event also signifies that a U.S. ally has endorsed investment in Sudan, despite tightened U.S. sanctions. END COMMENT.

FERNANDEZ